

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY SCHOOL DISTRICTS**

THE AUDIT PROGRAM

2003-04

**STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
DIVISION OF FINANCE
PO BOX 500
TRENTON, NEW JERSEY 08625-0500**

**William L. Librera, Ed.D., Commissioner
State Board of Education**

**Richard Rosenberg
Assistant Commissioner
Division of Finance**

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THE AUDIT PROGRAM TABLE OF CONTENTS

	PAGE
Significant Changes.....	i
Other Changes/Updates for 2003-2004.....	vi
Introduction	x
Outline for Comprehensive Annual Financial Report (CAFR)	xiii
 Section I: General Compliance	
Chapter 1 – Appointment, Scope and Declaration	I-1.1
Chapter 2 – Meetings and Minutes	I-2.1
Chapter 3 – ASSA & DRTRS	I-3.1
Chapter 4 – Budget & Transfers	I-4.1
Chapter 5 – Bids & Contracts/Purchasing	I-5.1
Chapter 6 – Chart of Accounts / Expenditure Classification	I-6.1
Chapter 7 – Reserved.....	I-7.1
Chapter 8 – Year End Procedures – Closing Out for GAAP.....	I-8.1
 Section II: Specific Compliance	II-i
Governmental Funds	
Fund 10 (General Fund):	
➤ Board Secretary and Treasurer Reports	II-10.1
➤ Cash Reconciliation.....	II-10.1
➤ Petty Cash Funds	II-10.1
➤ SAS #70 Reports	II-10.1
➤ Third Party Disbursements	II-10.2
➤ Investments.....	II-10.2
➤ Revenues and Receipts	II-10.3
➤ Extraordinary Aid.....	II-10.4
➤ District Taxes	II-10.4
➤ Tuition (<i>N.J.A.C.</i> 6A:23-3)	II-10.5
➤ Reporting On-Behalf Payments.....	II-10.6
➤ Refunds.....	II-10.6
➤ Telecommunications Act of 1996 (E-rate)	II-10.6
➤ Cancellations	II-10.6
➤ Abbott Parity Remedy Aid	II-10.6
➤ Health Insurance Policies	II-10.7
➤ Sale and Lease-back Contracts	II-10.8
➤ Required Maintenance.....	II-10.8
➤ Schedule of Required Maintenance Expenditures.....	II-10.10
➤ Restricted Appropriations/Balances	II-10.11
➤ Capital Reserve Account – General Fund	II-10.12
➤ Excess Surplus.....	II-10.15
➤ Fund Balance Classifications	II-10.20
Fund 20 (Special Revenue Fund):	
➤ TPAF Reimbursement	II-20.1
➤ Demonstrably Effective Program Aid (DEPA)	II-20.2
➤ Preparing the DEPA Restricted Aid Schedule	II-20.4
➤ Early Childhood Program Aid.....	II-20.12

**THE AUDIT PROGRAM
TABLE OF CONTENTS (CONT'D)**

	PAGE
Section II: Specific Compliance (Cont'd)	
➤ Preparing the ECPA Restricted Aid Schedule.....	II-20.12
➤ Distance Learning Network Aid and Instructional Supplement Aid	II-20.15
➤ Preparing the Distance Learning Network Aid Schedule.....	II-20.15
➤ Preparing the Instructional Supplement Aid Schedule.....	II-20.18
Fund 30 (Capital Projects Fund):	
➤ Bond and Note Authorizations	II-30.1
➤ General Borrowing Authority.....	II-30.1
➤ Bond Sales and Capital Projects Fund Activities	II-30.3
➤ Capital Project Approval under EFCFA.....	II-30.3
➤ Unexpended Bond Proceeds	II-30.4
➤ Unexpended Project Funds – Other Funding Sources	II-30.5
➤ School Construction Corporation (SCC) Grants under EFCFA.....	II-30.5
➤ Overexpenditures.....	II-30.6
➤ Rebatable Arbitrage.....	II-30.6
➤ Secondary Market Disclosure.....	II-30.7
➤ Lease Purchase Agreements	II-30.7
Fund 40 (Debt Service Fund):	
➤ District Taxes	II-40.1
➤ Debt Service Aid	II-40.1
➤ Rebatable Arbitrage.....	II-40.1
➤ Budget Transfers	II-40.1
Permanent Fund	
➤ GASB 34 Model for Permanent Funds.....	II-GF-Perm.1
Proprietary Funds	
Fund 50 (Proprietary Fund):	
➤ Proprietary Funds	II-50.1
➤ Food Service – Enterprise Fund	II-50.1
➤ SAS #70 Reports	II-50.3
➤ Sample Food Service Invoices and Allocations	II-50.4
➤ Child Nutrition Program Requirements.....	II-50.9
➤ National School Lunch Rate Schedule	II-50.13
➤ Internal Service Funds.....	II-50.14
Fiduciary Funds	
Fund 60 (Fiduciary Fund):	
➤ Trust Fund Reporting	II-60.1
➤ Unemployment Trust Fund.....	II-60.1
➤ Section 457 Deferred Compensation Plans.....	II-60.2
➤ Agency Funds.....	II-60.2
➤ Student Activity.....	II-60.3
➤ Organizations Under the Auspices of the School.....	II-60.3
➤ Fund Raising in Schools by Outside Organizations	II-60.3
➤ Funds of Teacher Organizations and Parent/Teacher Organizations.....	II-60.4
➤ Funds Collected by Teachers from Pupils for Immediate Purchase of Items	II-60.4

THE AUDIT PROGRAM TABLE OF CONTENTS (CONT'D)

	PAGE
Section II: Specific Compliance (Cont'd)	
 Capital Assets	
➤ Overview	II-CA.1
➤ Reporting Capital Assets	II-CA.1
➤ Capital Leases.....	II-CA.2
➤ Construction in Progress.....	II-CA.2
➤ Reporting Capital Assets Acquired Through Non-cash Grants.....	II-CA.2
➤ Sample Format – Capital Asset Subsidiary Ledger.....	II-CA.2
➤ Depreciation Expense.....	II-CA.3
 Long-Term Liabilities	
➤ Overview	II-LT.1
➤ Compensated Absences	II-LT.1
➤ Early Retirement Incentive Program	II-LT.2
➤ Arbitrage Requirements.....	II-LT.2
 Single Audit:	
➤ Federal and State Audit Requirements	II-SA.1
➤ Schedules of Expenditures of	
Federal Awards and State Financial Assistance.....	II-SA.2
➤ Preparing the Schedules of Expenditures of Federal Awards and State Financial Assistance.....	II-SA.4
➤ Federal (CFDA) Numbers	II-SA.9
➤ State Grant Account Numbers.....	II-SA.11
➤ Sample Schedule A (Federal Award).....	II-SA.13
➤ Sample Schedule B (State Financial Assistance)	II-SA.14
➤ Sample Schedules of Findings and Questioned Costs.....	II-SA.15
➤ Sample Summary Schedule of Prior Audit Findings.....	II-SA.20
➤ Federal OMB Circular No. A-133 - Refer to Circular on web site http://www.omb.gov	
➤ State Circular Letter No. 04-04-OMB – Refer to Circular which can be access at the NJOMB web site http://www.state.nj.us/treasury/omb/	
 Section III: Reporting	
Chapter 1 --Audit Criterion and Submission	III-1.1
Chapter 2 – Sample Opinion Reports	
➤ Directives for Auditor’s Reports	III-2.1
➤ Component Units	III-2.1
➤ Independent Auditor’s Report	III-2.2
➤ Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	III-2.5

**THE AUDIT PROGRAM
TABLE OF CONTENTS (CONT'D)**

	PAGE
Section III: Reporting (Cont'd)	
➤ Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133 and New Jersey OMB OMB Circular 04-04	III-2.7
Chapter 3 – Note Disclosures	
➤ Sample Notes for Schedules of Expenditures of Awards and Financial Assistance.....	III-3.2
➤ Financial Statement Disclosures – Overview and Sample Notes	III-3.4
➤ GASB 34 Model Illustration of Reconciliation - Notes to Required Supplementary Information.....	III-3.6
Chapter 4 – Auditor's Management Report (AMR).....	III-4.1
Chapter 5 – Audit Summary Worksheet Diskette.....	III-5.1
Chapter 6 – Audit Checklist & Questionnaire	III-6.1
Chapter 7 – Synopsis and Corrective Action Plan.....	III-7.1
Chapter 8 – Quality Assessment Review Checklist	III-8.1

SIGNIFICANT CHANGES FOR 2003-04

Legislative S1701

P.L.2004, c. 73 (S1701), signed by the Governor on July 1, 2004, impacts several areas in the June 30, 2004 year end audit process including:

- audited excess surplus calculation
- review of school district recertification of the 2004-05 tax levy based on projected surplus balances
- review of all post-April election appropriation of fund balance

General guidance was issued to school districts by the Department on July 1, 2004 with additional guidance provided on July 2, 2004 via the issuance of a Q & A. The legislation also has provisions that do not impact the 2003-04 fiscal year but will impact subsequent years, including changes to the annual spending cap and spending growth limitation adjustments, restrictions on budget transfers, limitations on administrative spending, and limitations on the use of surplus transfers into a capital or maintenance reserve.

Audited Excess Surplus Calculation

For all regular, nonvocational school districts, the legislation reduced the amount of allowable surplus that may be maintained by a school district from 6% to 3% of the audited 2003-04 general fund expenditures or \$100,000, whichever is greater. Therefore, the audited excess surplus calculation for regular school districts, other than vocational districts, that have general fund expenditures exceeding \$100 million is no longer applicable. The only change for county vocational school districts is the increase in the minimum surplus balance from \$75,000 to \$100,000. Abbott school districts receiving Discretionary Education Opportunity Aid in 2004-05 or that received Additional Abbott v. Burke state aid in 2003-04 are still subject to the 2% audited excess surplus calculation at June 30, 2004.

The audited excess surplus calculation continues to allow fund balance adjustments for the amount of impact aid, extraordinary aid, and the initial receipt from the sale/leaseback of textbooks recorded in the audit year and for the classification of reserved fund balances and unreserved fund balances designated for the subsequent year. New for 2003-04 is a state aid category, similar to extraordinary aid, that is a reimbursement for nonpublic transportation expenditures that have already been appropriated. This additional unbudgeted aid will also be an allowable adjustment to the excess surplus calculation, similar to the allowable adjustment for extraordinary aid, since the school district was not notified of the award amount until June 2004.

Reserved fund balance classifications used to adjust the audited excess surplus calculation may only be for encumbrances relating to the audit year or for state or other government imposed legally reserved fund balance restrictions. All other legal reserves require Department review and approval. Examples of state imposed legal restrictions include audited excess surplus, unspent separate proposals, unspent capital outlay resulting from capital outlay spending growth limitation adjustment, ASSA audit recovery, and legally established capital, maintenance and tuition reserve accounts. An example of other government imposed legal restrictions includes court ordered judgments. All other legal reserves that are established pursuant to a locally approved contractual obligation or for some other purpose must be submitted by the school district to the Assistant Commissioner of Finance by September 30, 2004 for approval as an allowable adjustment to the audited excess surplus calculation. Departmental approval will only be granted for those other obligations that are in conformity with GAAP.

Three new lines have been added to the audited excess surplus calculation as well as a new footnote for the detail of any legal reserve beyond the subsequent budget year.

- The first new line is added in Section I under 2003-04 total general fund expenditures, Line (B2c) entitled “Adjustment for Disallowed Expenditures per S1701,” and should be used to reduce the total general fund expenditures by the amount of a disallowed expenditure. A disallowed expenditure may result from either a district “Certification” of a disallowed expenditure or a disallowed post-April 2004 election appropriation of undesignated, unreserved fund balance (surplus), both of which are discussed below. This new line should not be used for a disallowed “Certification” or surplus appropriation that was encumbered and/or unexpended since it would not have been included in the 2003-04 total general fund expenditures.
- The second new line is added in Section 2 as Line (C6) of the audited excess surplus calculation entitled “Adjustment for Disallowed Surplus Transfer per S1701.” This line should only be used for a disallowed post-April 2004 election transfer of surplus that was actually expended versus encumbered, as discussed below, and is not applicable to a disallowed district “Certification” in the A4F recertification process. This new line should not be used if the disallowed transfer was unexpended but encumbered since the encumbered amount is already reflected in the beginning fund balance used on Line (C). In addition, this encumbered amount should not be included on Line (C1) Reserved for Encumbrances.
- The third new line is added in Section 3 as Line (F) of the audited excess surplus calculation entitled “Fund Balance Reserved for 2005-06 per S1701.” This line should only be used for a disallowed district “Certification” as a result of the A4F recertification process, as discussed below, for both expended and encumbered funds. If the funds are encumbered, then Line (C1), Reserved for Encumbrances, may be used to reflect the reserved fund balance amount on Line (F) as well as any other allowed encumbrances the school district may have. When completing the audsum data collection, Line (F) should be added together with any additional excess surplus generated in 2003-04 Line (E) and entered on audsum line 10024. Line (F) should also be shown separately in the reserved fund balance sections of the CAFR.

Recertification of School Districts 2004-05 Tax Levy (A4F Form) – “Certification”

The new legislation amends *N.J.S.A.18A:7F-7* and includes a provision for regular school districts, excluding vocational districts, to appropriate in 2004-05, anticipated surplus greater than 3% of the budgeted general fund appropriations or \$100,000, whichever is greater, for tax relief. Prior to the enactment of this law, school districts were required to appropriate projected surplus greater than 6% of budgeted general fund appropriations or \$75,000, whichever is greater.

The Department recalculated each school district’s 2004-05 budgeted excess surplus calculation (as originally performed on supporting documentation item 9 of the budget application) at 3% versus the original 6% calculation performed in the advertised budget submitted to the voters. Based on this recalculation by the Department, each county office notified those school districts that were required to reduce their A4F by increasing budgeted fund balance and reducing tax levy. School districts whose calculated adjustment was less than or equal to \$50,000 were not required to revise their A4F, although these amounts will still be subject to the audited excess surplus calculation at June 30, 2004.

A school district may certify a higher tax levy than the amount required to be certified based upon the Department's recalculation of the school district's excess general fund balance, but only under limited circumstances. As outlined in the guidance documents issued, a school district must attest (via a signed "Certification") that they needed to appropriate additional surplus than originally estimated to increase spending in the proposed budget (recapitulation of balances) for a 2003-04 T&E need and that no other line item account balance was available. This could also apply for a school district that anticipated surplus or anticipated generating surplus in their budget (recapitulation of balances) and that estimated surplus did not materialize. The "Certification" must specify the purpose of the appropriation (e.g. new special education placement, roof collapsed, or anticipated surplus did not materialize), why it was necessary for a 2003-04 T&E need, and that no other line item balances were available. It must also be signed by the chief school administrator, business administrator and board president.

The Department is requesting auditors to review school district "Certifications," if applicable, to determine whether other line item balances were available and whether the certified post-April election appropriation was necessary for a 2003-04 T&E need. Under the Certification process, the school district is attesting to the fact that no other line item balances were available for a post election appropriation or that estimated revenue did not materialize, and therefore the excess surplus as calculated using the 2004-05 projected fund balance was not available for 2004-05 tax relief. Several examples of an end of year unanticipated 2003-04 T&E need include: 1) a health and safety capital project, such as fire doors; 2) tuition due as a result of an end of year special education placement into a private school; and 3) an employee benefit payout for termination, resignation or retirement. This listing is not all-inclusive and if further guidance is needed by the auditor in determining whether an item is a 2003-04 T&E need, auditors may contact the Office of Fiscal Policy and Planning to facilitate the coordination of T&E determinations to the appropriate office.

If the auditor determines that the school district did not properly budget the full amount of fund balance required in their recertification of their A4F, (the school district's "Certification" was either disallowed or nonexistent), then the amount not properly appropriated in 2004-05 for tax relief must be recorded as reserved fund balance for tax relief in 2005-06 and included on audsum line 10024 and on Line (F) of the 2003-04 excess surplus calculation.

Appropriation of Fund Balance Subsequent to the April 2004 Election – "Surplus Transfers"

Under the revision to *N.J.S.A.18A:7F-7*, school districts may not transfer **undesigned, unreserved fund balance** to either a capital or maintenance reserve or to increase spending subsequent to the April 2004 election and prior to enactment of the law. The Board of Education may still approve line item appropriation transfers after the April election and prior to the passage of S1701 (July 1, 2004) that do not increase the school district's overall budgeted general fund appropriation. A post election increase in spending is also permitted due to an increase in unrestricted miscellaneous revenues or other revenue sources other than budgeted fund balance, if completed prior to the passage of S1701 (July 1, 2004).

All post-April 2004 election transfers to either the capital or maintenance reserve accounts that were not withdrawn and expended by June 30, 2004, or that were encumbered for other than a health and safety purpose, should be reclassified as undesigned, unreserved fund balance and considered available in the calculation of audited excess surplus. All post-April 2004 election transfers to either the capital or maintenance reserve accounts that were withdrawn and expended should be reviewed to determine if the expenditure was for a T&E need. The only other allowable post-April 2004 election transfer to either the capital or maintenance reserve would be for the amount anticipated in the district's recapitulation of balances report generated from the

2004-05 budget software. This amount should be reflected on line 1653 of the recapitulation of balances report.

Post election increases in appropriations from undesignated, unreserved fund balance as well as an expenditure from a post election capital or maintenance reserve transfer, may have an impact on the school district's audited excess surplus calculation. If it is determined that the school district increased appropriations (no other line item balances were available) and that the increase in appropriations was not for a 2003-04 T&E need, then the amount of the school district's increased appropriations subsequent to the April 2004 election should either be reversed if possible, for such items that are encumbered, or should be considered available fund balance in the audited excess surplus calculation. Line (C6) has been added to the audited excess surplus calculation to capture those expenditures that were in conflict with S1701 (an increase in spending for a non-2003-04 T&E need) and have not been reversed. Several examples of an end of year unanticipated 2003-04 T&E need include: 1) a health and safety capital project, such as fire doors; 2) tuition due as a result of an end of year special education placement into a private school; and 3) an employee benefit payout for termination, resignation or retirement. This listing is not all-inclusive and if further guidance is needed by the auditor in determining whether an item is a 2003-04 T&E need, auditors may contact the Office of Fiscal Policy and Planning.

Education Facilities Code Amendments (*N.J.A.C. 6A:26*)

The Educational Facilities Code *N.J.A.C. 6A:26* was amended effective June 7, 2004 and provides districts with greater flexibility in managing capital projects, use of capital reserve withdrawals (which did not change with the passage of S1701) and use of lease purchases. The amendments affect all aspects of capital projects, from the planning process to submission of plans, financing, and completion of capital projects. Please refer to the official version of the code in the June 7, 2004 *New Jersey Register* at 36 N.J.R. 2733(b) or the NDJOE website at <http://www.nj.gov/njded/code/title6a/chap26/amendment2/>.

Highlighted below are selected changes that may impact year end financial reporting and auditing of school districts. Please refer to the entire code to obtain all changes.

Management of Capital Projects

- Districts may use gifts, grants, other private sources and/or municipal surplus for local share requirements as long as adequately disclosed. (*N.J.A.C. 6A:-3.7, 3.12, and 3.17*)
- Bond proceeds may be shifted between projects within an approved referendum as long as there is adequate disclosure of such transfers and the board can attest that all the projects can be completed as approved. (*N.J.A.C. 6A:26-4.2*).
- The amendments clarify and expand on options for funding when there are insufficient funds to complete a project. Among those are to seek approval for transfer of surplus, tax levy, or capital reserve through the annual budget process. (*N.J.A.C. 6A:26-4.4*).
- Districts are given greater flexibility to advertise for bids before the school facilities project or other capital project has received approval from the Division, but may not award contracts until the approvals are final. (*N.J.A.C. 6A:26-4.8*).

Capital Reserve

- Districts are permitted to return unexpended transferred capital reserve funds remaining after completion of a school facilities project to the capital reserve account. (N.J.A.C. 6A:26-9.1).
- Districts may withdraw from the capital reserve account to fund predevelopment costs associated with school facilities projects included in the approved LRFP and have the option to reimburse the general fund from the capital projects fund after approval of the referendum. (N.J.A.C. 6A:26-9.1).

Lease Purchases

- Districts may now use a lease purchase for local share for an Authority school facilities projects as well as non-Authority projects. (*N.J.A.C.* 6A:26-3.7(c)). See also *N.J.A.C.* 6A:26-10 “Lease Purchases and Lease Agreements” for additional provisions on Lease Purchases.

OTHER CHANGES / UPDATES FOR 2003-04

Summary of Changes / Updates highlighted throughout the document and including the following:

1. General changes are found throughout the document and include:
 - Deleted areas that were applicable to pre-GASB 34 financial reporting.
 - NJOMB Circular 04-04 Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid supersedes 98-07-OMB effective January 1, 2004 and in accordance with OMB Circular A-133 (Revised June 27, 2003), raises the threshold for all recipients, including state and local governments, to \$500,000.
 - 2003 Edition of U.S. General Accounting Office publication, Government Auditing Standards (Yellow Book) strengthens and clarifies the auditing standards.
2. Specific changes are found in the following sections/chapters:

Section I-1

- AICPA SAS 99 establishes standards and provides guidance for auditors in fulfilling their responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Inquiries of management and non-business office staff may be expected.
- GASB Statement No. 39, Determining Whether Certain Organizations are Component Units is effective for years beginning after June 15, 2003 and addresses when to include a potential component unit's statements in the district's statements as a component unit.
- Noted that school business administrator is responsible for transmission of Audsum data.

Section I-3

- Emphasis that sample size is applicable to each of the categories for the ASSA not the entire population.
- Clarification of the pupil classification for Special Education Tiers.
- DRTRS County Summary is revised.
- Emphasis on consistency between the DRTRS summary count by category and related transportation expenditures.

Section I-6

- DEPA is tracked by location and not by strategy/program.

Section I-8

- Emphasis on auditor review of year-end encumbrances with Hotline issued on September 16, 2003.

Section II

Layout of chapters has been revised to reflect the GASB 34 groupings – Governmental Funds, Business Type Activities, and Fiduciary (see crosswalk below).

2002-03 Audit Program		2003-04 Audit Program
NA		Section II-GF-Perm Permanent Funds
Section II – 50: Proprietary Funds		Section II -50 Proprietary Funds (includes Internal Service Funds)
Section II – 60 Trust and Agency Funds		Section II – 60 Trust and Agency Funds (includes Student Activity Funds)
Section II -70 Student Activity Funds		NA
Section II – 80 General Fixed Asset Account Group		Section II – CA Capital Assets
Section II – 90 General Long-Term Debt Account Group		Section II-LT Long-Term Liabilities

Section II-10

- Recording Special Education Extraordinary Aid for Property Tax Relief and inclusion as an adjustment to the calculation of excess surplus.
- Web site for TPAF data.
- Schedule of Required Maintenance must reflect all years up to ten.
- New Temporary Cap Adjustment treated as Commissioner SGLA for purposes of 3% excess surplus calculation.
- Report Extraordinary Aid for Property tax Relief as reserved fund balance - legally restricted.
- Emphasis that transfers of surplus must be made prior to June 30.
- Additional Transportation Aid may be used as an adjustment for the excess surplus calculation.

Section II-20

- Guidance has been revised to reflect that DEPA schedules are prepared by location/school only and not by program/strategy.
- Revisions to eliminate guidance on ECPA capital reserve since no district should have a balance at of June 30, 2004.

Section II-GF-Perm

- New section on Permanent Fund.

Section II-50

- Child Nutrition Programs are subject to OMB A-133 and NJOMB revised threshold of \$500,000.
- Noted that monthly reimbursement claims were made online effective October 2003.
- Updated National School Lunch Rates (annual revision)

Section II-60

- Incorporated chapter on Student Activity funds under Agency Funds

Section II-CA

- New topic reporting of capital assets acquired through non-cash grants.
- New topic - depreciation expense.

Section II-LT

- General Long-Term Debt Account Group replaced by Long Term Liabilities for financial reporting.

Section SA

- Schedule of State Financial Assistance format has been revised to include a MEMO column for total expenditures, consistent with NJ OMB 04-04 requirements. Also, the budgetary receivable has been moved to the MEMO column. Due to the size of the schedule, the adjustments or repayment of prior year claims columns may be eliminated if not applicable.
- Consolidated Aid was new for 2003-04: state aid number listed, and aid line included in revised Schedule of State Financial Assistance

Section III-1

- Noted certain changes in the Yellow Book regarding peer review letters of comment to be sent to the district which has contracted for the audit.
- Noted \$500,000 single audit threshold set by OMB 133 and NJ OMB Circular 04-04.
- Emphasis that Audit Summary data is transmitted to the DOE by the School Business Administrator.
- Optional - NJ Department of Agriculture (NJDOA) reporting requirements to follow OMB 133, C_320(e)(2) in that if there are no audit findings related to funds passed through NJDOA to the district and no prior year findings for follow up, a letter of notification using the OMB 133 format is preferred by the NJDOA.

Section III-2

- Noted that AICPA combined the Statement of Position 98-03 into a new audit guide, Audits of state, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards.
- Auditor opinion reports are updated to reflect illustrations in the above new Audit Guide (Federal Guide) and the existing AICPA Audits of State and Local Governmental Units, GASB 34 Edition.

Section III-4

- New sample audit findings include district procedures to maximize efforts under Special education Medicaid Initiative (SEMI) and under Nonpublic State Aid, emphasis that project completion reports must be submitted to the department on time.
- Abbott districts should refer to the Abbott Addendum to the Audit Program for the applicable calculation of excess surplus

Section III-8

- Overall update to reflect GASB 34 terminology and removal of pre-GASB 34 references.

INTRODUCTION

This manual entitled Financial Accounting for New Jersey Public School Districts, (The Audit Program), was revised in 1994 with the implementation of generally accepted accounting principles (GAAP) by New Jersey school districts on July 1, 1993 as well as for GASB 34 financial reporting, and is updated annually. It includes instructions for both district personnel and public school accountants regarding preparing for and performing the annual audit. The full text of The Audit Program is available on the web site <http://www.nj.gov/njded/finance/fp/audit/>.

The Comprehensive Annual Financial Report (CAFR) is the basis for the annual audit. The CAFR should include all the disclosures required under GAAP reporting. New Jersey state law and administrative code (*N.J.S.A.18A:4-14* and *N.J.A.C. 6A:23-2*) require school districts to follow GAAP. These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for Comprehensive Annual Financial Report section at the end of this introduction provides additional information on the CAFR.

Reference Materials

Reference materials published by outside organizations are available to provide guidance in report preparation. The Government Finance Officers Association (GFOA) publishes *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "blue book" that is used nationwide as a reference tool for CAFR preparation. A "Supplement" was published in January 1999. A revised publication, which is updated for GASB 34, is also available through the GFOA. The American Institute of Certified Public Accountants (AICPA) issues *Checklist and Illustrative Financial Statements for State and Local Governmental Units* that is a recommended reference for disclosure requirements. The Association of School Business Officials International offers a Certificate of Excellence in Financial Reporting by School Systems Program that awards certificates to those annual reports that fully meet the requirements established by GAAP and publishes a self-evaluation worksheet that may also be used as a tool in report preparation.

Responsibility/Government Auditing Standards

N.J.A.C. 6A:23-2.2 (i) requires the issuance of a CAFR by every school district, along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the board of education's management and are its representation of the financial position at a given point in time and the operations of the district during a period of time.

Government Auditing Standards, commonly referred to as the "Yellow Book", are applicable to organizations that expend \$500,000 or more in federal financial assistance. As required by NJ Circular Letter 04-04-OMB, New Jersey school districts that expend \$500,000 or more in State and/or federal financial assistance in their fiscal year must also follow the Yellow Book.

Effective for audit periods beginning on or after January 1, 2003, the General Accounting Office (GAO) revised the auditor independence requirements under *Government Auditing Standards*. The most significant change relates to the rules associated with nonaudit and consulting services performed by those who also plan, conduct and review audit work. "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence." (Section 3.03) The Department recommends that district management and auditors give careful consideration to this change in the independence standard and its impact on the auditors of the district financial statements. In addition, the GAO has

released a 2003 edition of the *Government Auditing Standards*, effective for audits of periods ending on or after January 1, 2004. The 2003 Revision is available electronically at their web site www.gao.gov or can be ordered from the Government Printing Office (212-512-1800). Included on their web site is a list of major changes since the issuance of the 1994 version.

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline (November 5, 2004 for 2003-2004 audits). The Commissioner does have statutory authority (*N.J.S.A.* 18A:23-6) to appoint auditors for districts failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date.

1. The CAFR

The CAFR is the district's official annual report. It should include all of the funds and account groups of the LEA. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a district falls under the reporting requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996 and the revised OMB Circular 133, and/or the reporting requirements under NJOMB Treasury Circular Letter 04-04, the CAFR will also contain a single audit section. This report will strictly adhere to the Outline of the CAFR located at the end of this introduction. The report must include all sections, letters and exhibits in the applicable sample CAFR as they apply to each school district as well as any additional statements, schedules, and disclosures required under the circumstances of the district. The report must also include all applicable single audit opinion letters prepared by the local school district's auditor in the single audit section. Sample single audit letters are provided in Section III – Chapter 2 of The Audit Program.

Auditor's Note – Auditors should review the Abbott Addendum to the Audit Program (The Abbott Addendum) for items that specifically relate to Abbott districts. The Abbott Addendum is available on the web site <http://www.nj.gov/njded/finance/fp/audit/>.

2. The Auditor's Management Report on Administrative Findings, Financial, Compliance and Performance (AMR)

This separate report will serve as the auditor's report on management. This report must be submitted together with the CAFR to the Department of Education in order to comply with Finance Policy Bulletin 200-1. A sample Auditor's Management Report is located in Section III – Chapter 4.

3. Audit Summary Worksheet

The Audit Summary Worksheet (Audsum) diskette is to be completed by the auditor and given to the district board secretary/business administrator. The board secretary/business administrator is responsible for carefully reviewing the reports generated by the Audsum diskette and signing off on the transmittal letter as to the accuracy of the information. The board secretary/business administrator is responsible for the transmission of the Audsum data via the DOENET to the Department of Education by the same due date as the CAFR. This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that auditors and district personnel pay particular attention to the accuracy of the data to avoid having to resubmit the data.**

The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform to the common practice for CAFR presentation followed by other school districts throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board that is required for conformance with GAAP. The AMR is the auditor's report to the board of education of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the district is required.

USOMB Circular A-133 and NJOMB Circular Letter 04-04 require that the Schedule of Findings and Questioned Costs contain, but not be limited to, reportable conditions in internal control over major programs, material non-compliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program, and known questioned costs which meet the threshold as defined in Circular A-133. *N.J.S.A.* 18A:23-9 states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the board of education of each school district." Accordingly, the AMR must include all findings, including any items contained in the Schedule of Findings and Questioned Costs.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

New Jersey statute (*N.J.S.A.18A:4-14*) requires that school districts maintain bookkeeping consistent with generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The financial reporting requirements of GAAP include the issuance of a CAFR.

The financial statements are the responsibility of the board of education's management. In January 2002, the General Accounting Office (GAO) announced revisions to the auditor independence requirements under *Government Auditing Standards* (see the Introduction to the Audit Program). The most significant change relates to the rules associated with non audit and consulting services performed by those who also plan, conduct or review audits. The department recommends that district management and auditors give careful consideration to this change in the independence standard and its impact on the auditors of the district financial statements. The GAO has released a 2003 edition of the *Government Auditing Standards*, effective for audits of financial periods ending after January 1, 2004. The 2003 version is available electronically at www.gao.gov/govaud/ybk01.htm or can be ordered from the Government Printing Office (212-512-1800). Included on their web site is a list of major changes since the issuance of the 1994 version.

Districts should reference the NJ Department of Education (NJDOE) website at www.state.nj.us/njded/finance/fp (click on GASB 34) for selected sample statements, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded. Information on Management Discussion and Analysis (MD&A) requirements, a crosswalk from the pre-GASB 34 statements, Frequently Asked Questions, and theoretical information is also available at that web site to assist auditors and district staff. **The illustrative statements and schedules are not intended to be boilerplate nor inclusive of every situation.**

The NJDOE, after consultation with the NJASBO GASB 34 Taskforce and the NJSCPA, is requiring that each governmental fund be treated as a major fund in the fund statements for GASB 34 presentation. Questions relating to GASB 34 implementation can be emailed to doecafr@doe.state.nj.us.

The format of the CAFR should adhere to the prescribed format (i.e. section) of the report and numbering of the exhibits as shown in the Outline on the following pages. If a section or exhibit is not applicable to the school district, the notation "N/A" should be indicated against that item in the Table of Contents.

Auditor's Note – Auditors should review The Abbott Addendum for items that specifically relate to Abbott districts.

Financial reports will be presented utilizing the same overall format as pre-GASB 34 financial reports – Introduction, Financial Statistical and Single Audit Sections. The contents of each section of the CAFR are follows:

Introductory Section – Although not required by GASB 34, this section is still used by the GFOA “Blue Book” and is intended to familiarize the reader with the organizational structure of the school district and information useful to the reader to evaluate the district's financial condition. It is important that the letter of transmittal avoid duplicating information already provided in detail elsewhere in the CAFR (GASB 34, fn 7). Some of the minimum requirements (set by GASB 34, paragraph 11) for the contents of Management Discussion &

Analysis (MD&A) are similar to the information presented in the pre-GASB 34 letter of transmittal.

Financial Section – this section includes the 1) independent auditor’s report, 2) MD&A, 3) basic financial statements including the district-wide statements (accrual basis for governmental and business-type activities), fund statements (modified accrual basis for governmental funds, accrual basis for proprietary funds and for fiduciary funds), and notes to financial statements, 4) Required Supplementary Information (RSI) other than MD&A including budgetary comparison schedules, 5) Other Supplementary Information including combining and individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a district has only two programs in the Proprietary Fund, a combining schedule would not be necessary. The School Level Schedules (D series in the GASB 34 Outline) should only be included for Abbott districts. Indicate by “N/A” when a schedule is not applicable.

Statistical Section – This section is intended to provide CAFR users with a broader and complete understanding of the school district and its financial affairs than is possible from the financial statements and supporting schedules included in the financial section. Statistical information to assist districts and auditors in preparing this section is posted on the NJDOE web site at www.state.nj.us/njded/finance/fp (click on Audit Information).

Single Audit Section – This section includes independent auditor’s reports on compliance and internal control, schedules of expenditures for federal and state grants, notes to the schedules of expenditures of federal and state grants, schedule of findings and questioned costs, and a summary schedule of prior audit findings. This information is required by OMB Circular A-133 and New Jersey OMB Circular Letter 04-04.

OUTLINE OF CAFR GASB 34 MODEL

Page

INTRODUCTORY SECTION

Letter of Transmittal
Organizational Chart
Roster of Officials
Consultants and Advisors

FINANCIAL SECTION

Independent Auditor's Report.....

Required Supplementary Information - Part I
Management's Discussion and Analysis.....

Basic Financial Statements

A.	District-wide Financial Statements:	
A-1	Statement of Net Assets.....	
A-2	Statement of Activities	
B.	Fund Financial Statements:	
	Governmental Funds:	
B-1	Balance Sheet	
B-2	Statement of Revenues, Expenditures, and Changes in Fund Balances	
B-3	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	
	Proprietary Funds:	
B-4	Statement of Net Assets.....	
B-5	Statement of Revenues, Expenses, and Changes in Fund Net Assets	
B-6	Statement of Cash Flows	
	Fiduciary Funds:	
B-7	Statement of Fiduciary Net Assets	
B-8	Statement of Changes in Fiduciary Net Assets	
	Notes to the Financial Statements	

Required Supplementary Information - Part II

C.	Budgetary Comparison Schedules	
C-1	Budgetary Comparison Schedule - General Fund	
C-1a	Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (if applicable)	
C-2	Budgetary Comparison Schedule – Special Revenue Fund	

Notes to the Required Supplementary Information

C-3 Budget-to-GAAP Reconciliation

Other Supplementary Information**D. School Level Schedules (if applicable):**

D-1	Combining Balance Sheet
D-2	Blended Resource Fund – Schedule of Expenditures Allocated by Resource Type – Actual
D-3	Blended Resource Fund – Schedule of Blended Expenditures – Budget and Actual

E. Special Revenue Fund:

E-1	Combining Schedule of Revenues and Expenditures Special Revenue Fund – Budgetary Basis
E-2	Demonstrably Effective Program Aid Schedule of Expenditures - Budgetary Basis
E-3	Early Childhood Program Aid Schedule of Expenditures – Budgetary Basis
E-4	Distance Learning Network Aid Schedule of Expenditures – Budgetary Basis
E-5	Instructional Supplement Aid Schedule of Expenditures – Budgetary Basis

F. Capital Projects Fund:

F-1	Summary Schedule of Project Expenditures
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G. Proprietary Funds:**Enterprise Fund:**

G-1	Combining Statement of Net Assets
G-2	Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
G-3	Combining Statement of Cash Flows

Internal Service Fund:

G-4	Combining Statement of Net Assets
G-5	Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
G-6	Combining Statement of Cash Flows

H. Fiduciary Funds:

H-1	Combining Statement of Fiduciary Net Assets
H-2	Combining Statement of Changes in Fiduciary Net Assets
H-3	Student Activity Agency Fund Schedule of Receipts and Disbursements
H-4	Payroll Agency Fund Schedule of Receipts and Disbursements

Page**I. Long-Term Debt:**

I-1	Schedule of Serial Bonds.....
I-2	Schedule of Obligations under Capital Leases
I-3	Debt Service Fund Budgetary Comparison Schedule

STATISTICAL SECTION (Unaudited)

J-1	Governmental Fund Expenditures by Function.....
J-1a	Schedule of Allowable Maintenance Expenditures by School Facility
J-2	Governmental Fund Revenues by Source
J-3	Municipal Property Tax Levies and Collections
J-4	Assessed and Estimated Actual Value of Taxable Property.....
J-5	Property Tax Rates - Direct and Overlapping Governments.....
J-6	Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita.....
J-7	Computation of Legal Debt Margin
J-8	Computation of Direct and Overlapping Bonded Debt
J-9	Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total Governmental Fund Expenditures
J-10	Demographic Statistics.....
J-11	Schedule of Principal Taxpayers*
J-12	Attendance Data
J-13	Insurance Schedule.....
J-14	Miscellaneous Statistics.....
J-15	General Fund Other Local Revenue by Source

* Private citizens should be listed as Individual Taxpayer 1, Individual Taxpayer 2, etc.

SINGLE AUDIT SECTION

K-1	Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
K-2	Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04.....
K-3	Schedule of Expenditures of Federal Awards, Schedule A.....
K-4	Schedule of Expenditures of State Financial Assistance, Schedule B.....
K-5	Notes to the Schedules of Awards and Financial Assistance
K-6	Schedule of Findings and Questioned Costs
K-7	Summary Schedule of Prior Audit Findings.....